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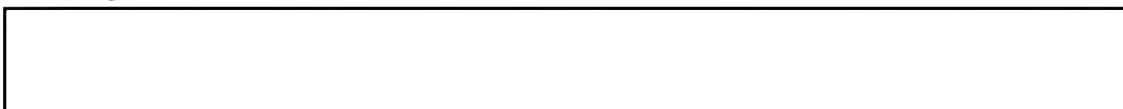
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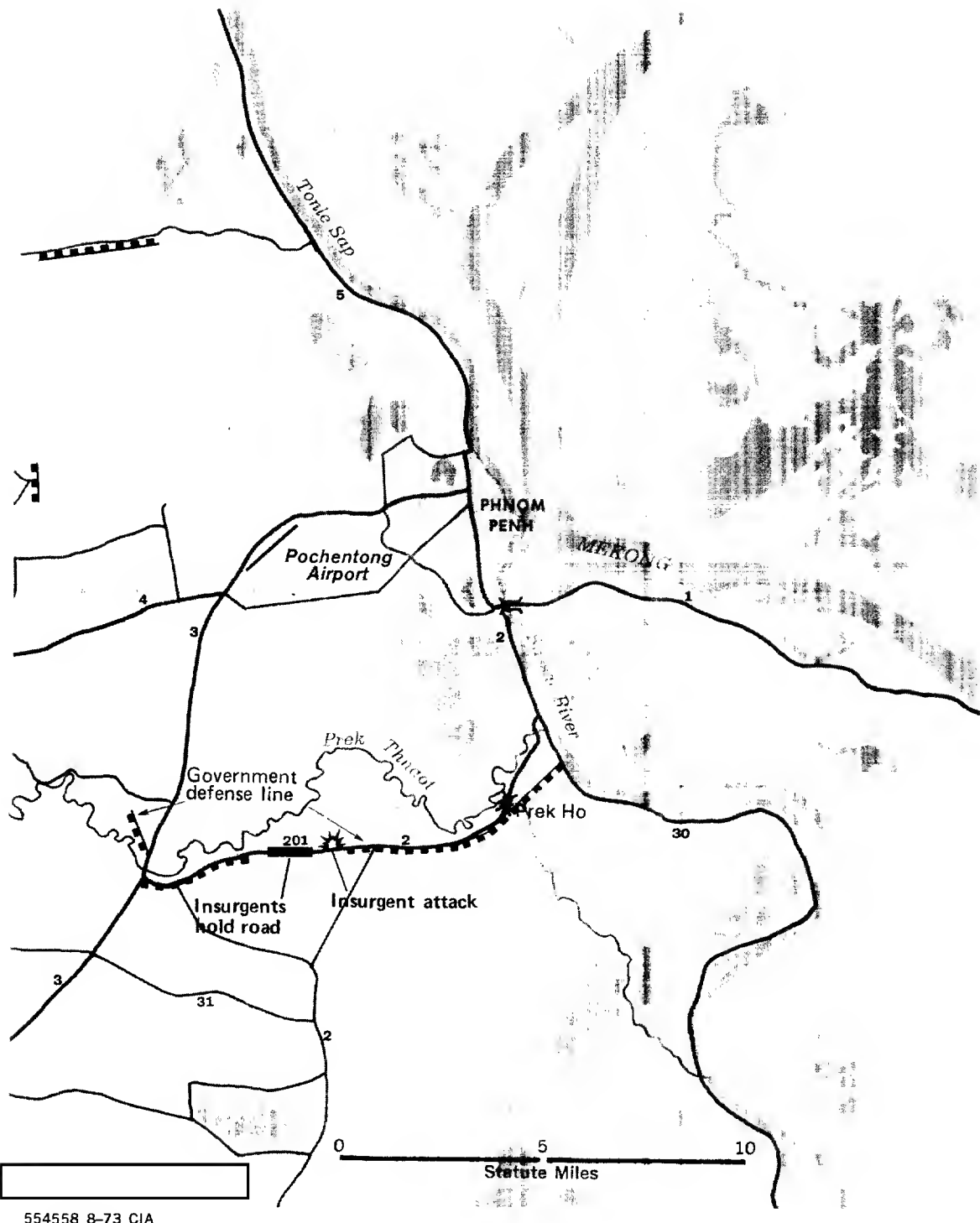
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CAMBODIA: Khmer insurgent forces yesterday began to move against the government defense line south of Phnom Penh.

Insurgent units moved across Route 201--linking Routes 2 and 3--south of the Prek Thnaot River. A government counterattack forced a partial insurgent withdrawal, but one mile of road was still in Communist hands late in the day. Government units on Route 201 are receiving artillery support and only light casualties have been reported. So far there has been little indication of the size of the insurgent force involved in the attack.

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Elsewhere, Routes 4 and 5 remain cut some 30 miles from Phnom Penh.

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The insurgents are keeping heavy pressure on the provincial capital of Kompong Cham forty-five miles northeast of Phnom Penh. Several positions north of the city have fallen in the past few days and the perimeter to the west and south has been shelled and probed daily. The airstrip just northwest of Kompong Cham is within easy range of insurgent artillery, and the Cambodian Air Force has begun to airdrop ammunition and supplies for the city.

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NORTH VIETNAM: Two recent articles suggest that a debate is emerging within the North Vietnamese leadership over North Vietnam's strategy in the South.

On 18 and 25 August the North Vietnamese Army daily published articles by a pseudonymous author who in the past has strongly favored an aggressive military policy in South Vietnam. The author--whose pen name is Chien Thang ("the victor")--was pushing as early as the first part of 1971 for a major offensive, and he published an authoritative exposition of Hanoi's war strategy on the eve of the 1972 offensive. He has not been heard from since last September, just before the Paris talks began to bear fruit.

Chien Thang's two new articles update his past assessments of the military situation. He appears to argue:

--that the US military withdrawal has "heavily" tilted the military balance in South Vietnam in the Communists' favor;

--that the Communists in the South now have "all the decisive factors to win victory;"

--that North Vietnam has the ability--and by implication the duty--to support the southern struggle as it has in the past;

--that aid from Hanoi's Communist patrons is far less important than the "subjective" assets that the Vietnamese Communists already possess in abundance; and

--that the North's "basic needs" could be taken care of as they were in earlier phases of the war. (He apparently is prepared to acknowledge, however, that the reconstruction effort would suffer if Hanoi stepped up its investment in the southern struggle.)

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Chien Thang does give a nod to the need to implement the Paris Agreement and last June's joint communiqué, but the focus of his articles is on the military opportunities he claims to see in the present situation. In this respect he is at odds with present North Vietnamese strategy, which stresses reconstruction in the North and political struggle backed by limited military operations in the South.

Although Chien Thang is arguing a case for intensified military pressure, the exact magnitude of the effort he is urging is not clear. He may be advocating a major offensive as he did in 1971, but several references in the articles to a "protracted" struggle could indicate that he prefers a longer-term effort at a somewhat lower level. Also, it is not clear how much support Chien Thang can count on for his views--and particularly for his highly optimistic account of present Communist capabilities. The fact that he was able to publish his views, however, suggests that he has some backing, presumably concentrated in the North Vietnamese military hierarchy and the apparatus inside South Vietnam.

The tone of the articles makes it clear that Chien Thang and his allies think the question of future strategy is open--or at least more open than at any other time in the last year. This would in fact be a logical time for the leadership to review its strategy in the South, taking into consideration both its seven months' experience with the cease-fire and the aid agreements recently concluded with Peking and Moscow, which apparently emphasized economic rather than military assistance. Such a review could begin when First Secretary Le Duan returns from his long sojourn in the USSR on 28 August. Le Duan is now in Peking. [REDACTED]

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CHINA: The Tenth Party Congress held in Peking from 24-28 August was unusually short. Its brevity suggests that essential tasks were accomplished with relative ease, but that the leadership found it desirable to avoid a full discussion of controversial policy issues that were vigorously debated in the media prior to the congress.

Mao presided and Chou En-lai gave the political report, a role awarded in the past to the second-ranking party leader. The congress elected a new Central Committee that is larger than previous groups and includes a number of rehabilitated party and government officials. It also adopted a revised party constitution. The congress formally expelled Lin Piao from the party and signaled that he will now be attacked by name in the media. The on-going campaign against Lin and his followers was cited as the primary task, a move that leaves the door open for further purges or demotions among those adjudged to be following Lin's policies.

Although no names are available, the new Politburo will probably remain a mix of moderate officials, radical ideologues, military men, and elder statesmen. Preliminary accounts of the proceedings indicate a meteoric rise in party status for Wang Hung-wen, a young Shanghai official who was aligned with the radical faction during the Cultural Revolution. Wang gave the report on the revised party constitution and was listed among the top seven party leaders. Wang is probably more acceptable to moderate leaders such as Chou En-lai than are Madame Mao and her alleged son-in-law, Yao Wen-yuan. Both have apparently retained their Politburo status, but they were not listed among the top seven leaders. Another significant promotion is that of Chang Chun-chiao, a former leftist who seems to have moderated his views over the past year. Chang may be performing the duties of party secretary general.

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Reflecting its campaign to achieve the eventual reunion of Taiwan with the mainland, Peking reported that for the first time Taiwanese delegates had attended a CCP congress. The "delegates," however, probably have been living on the mainland for many years.

In well-worn phraseology the communiqué reaffirmed the basic premises and directions of China's post - Cultural Revolution foreign policy. The Soviet Union was clearly stamped as China's chief enemy; Moscow was labeled both the most dangerous threat to Chinese security and Peking's foremost ideological foe. The congress called on the Chinese populace to be on guard against an imperialist world war, particularly a surprise Soviet attack. The congress also reaffirmed Peking's strong interest in playing a leadership role in international affairs.

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LIBYA-EGYPT: The declaration of union issued yesterday by Presidents Qadhafi and Sadat represents a major victory for Egyptian efforts to drag out the actual integration of the two countries.

The announcement, while paying lip service to the Libyan principle of full union, provides for little more than another round of planning and a few token steps toward unification. According to this second phase, a constituent assembly--composed of 50 delegates from each country--will be selected on 1 September to draft a new constitution, nominate a president, and arrange for a referendum on the constitution to be held in both countries. A ministerial planning council will also be formed to coordinate preparations for eventual merger. The only gesture toward actual integration was an agreement to use an Egyptian-Libyan dinar as the unit of accounting between the two countries. No specific deadline was given for the completion of these preparatory measures, and during the interim the jurisdiction of the two countries will remain separate.

Sadat has gained from the last-minute negotiations virtually everything he has been seeking in terms of a gradual approach to the merger. The provision for implementation of the union in stages and the omission of a deadline for completion of the various phases allow him time to continue his search for access to Libya's wealth, short of full union.

Sadat will continue the round of diplomatic activity in which he has lately been engaged, and he will continue, as before, to do this in isolation from Qadhafi. The unity proclamation in fact gives him the freedom, at least initially, to conduct Egypt's affairs on his own terms. The major policy differences still separating him from his Libyan partner do not bode well for future "national" harmony, but from Sadat's standpoint, these pose few problems for the short term. Problems will arise again when the time comes for fuller integration, but Sadat undoubtedly hopes that he will be better able at that point to counter Libyan efforts to influence Egyptian policy.

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President Qadhafi is no doubt feeling the sting of the first serious setback in his campaign for complete union, and he may well redouble his efforts to push his wary Egyptian partners. The Libyan leader has already warned that his participation in the unity scheme--and, indeed, his leadership of Libya--is contingent on the direction of the unified state. Despite the compromise he has made to meet his own deadline of 1 September, this warning remains in effect along with other less dramatic pressures to thwart Egyptian foot-dragging in the months ahead.

USSR - WEST GERMANY: Soviet relations with the Brandt government have cooled considerably since Brezhnev's visit to Bonn last May.

In its negotiations to establish diplomatic relations with Czechoslovakia, Bulgaria, and Hungary, Bonn has argued that its prospective embassies should be able to represent West Berlin institutions as well as individuals. All three Eastern European countries--at East German and now Soviet insistence--have refused to accommodate Bonn on this issue.

The Soviets are disturbed by what they claim to see as West German efforts to expand ties with West Berlin beyond the limits allowed by the Quadripartite Agreement and are giving a narrow interpretation to its terms. Last weekend the Soviets used their unofficial Radio Peace and Progress to warn that West German representation of West Berlin has specific limits. On 23 July, the Soviets lodged a formal protest against provisions in a West German draft law that they claimed violated provisions in the Quadripartite Agreement.

Current strains in Soviet - West German relations also were apparent in a recent Moscow radio commentary stating that foreign and national forces in central Europe should be reduced at the same time and in the same proportion. The Soviet commentator seemed to imply that West German Defense Minister Leber held that reductions should be limited to foreign forces, which could endanger the existing "power ratio" in Europe. The Soviets apparently fear that reductions of US and Soviet forces would leave the West Germans disproportionately strong.

In addition, the Soviets hold Bonn responsible for much of the trouble they had at the CSCE preparatory talks on the subject of "freer movement."

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25X1 [redacted] Freer movement issues are expected to be the main source of East-West discord at the CSCE second stage, which begins on 18 September.

Moreover, the Soviets are disappointed that détente has not generated markedly improved economic cooperation between Moscow and Bonn. A Soviet official in Bonn recently conveyed Brezhnev's pique over the lack of a favorable response to the Soviet request for lower interest rates on credits, a subject on which Brezhnev made a special plea during his visit to Bonn.

25X1 [redacted] West German intransigence on interest rates, for example, has delayed agreement on participation in the construction of a metallurgical complex at Kursk, worth some \$650 million to West German exporters.

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CEMA-EC: CEMA has opened its bid for official negotiations with the EC, but this overture probably lacks the full support of Moscow's East European allies.

CEMA Secretary General Fadeyev made the proposal Monday in Copenhagen to the Danes because they chair EC bodies for the remainder of the year. Danish officials emphasized that the talks with Fadeyev were "unofficial" and confined to a general exchange of opinions. They will, however, attempt to place the CEMA bid before the EC Council of Ministers at its meeting in Brussels on 20-21 September. The EC has not been anxious to establish ties with CEMA that would seem to equate the eastern bloc and the community. The EC may nonetheless find it difficult to reject flatly Fadeyev's low-key approach.

The Soviets have been pushing for the CEMA-EC contacts and secured the go-ahead signal at the CEMA ministerial meeting in June. One motive behind the Soviet campaign presumably is Moscow's desire to enhance its controls over its allies' dealings with the EC. This aspect must be troubling to at least some of the other CEMA members, especially the Romanians. In June, Romania became the first--and so far the only--Soviet ally to be extended the benefits of the EC's system of generalized tariff preferences. The initiative came from Bucharest, which apparently is more than willing to reach its own accommodations with the EC outside the CEMA context.

The Soviets have said publicly that they still would prefer bilateral agreements between the members of the opposite blocs. Nevertheless, Moscow is probably concerned about the potential importance that the community may have for individual East European states, especially in light of the EC's right to take over its members' commercial negotiations with the East, which theoretically was acquired at the beginning of this year. It now seems doubtful, however, that the EC will have a meaningful common commercial policy toward the East in the short run. Most of

the recent East-West agreements, for example, are broad bilateral cooperation arrangements that will be difficult to bring under community aegis. If and when the community does act as a unit on all such matters, its leverage on individual Eastern states could be an obstacle to greater integration of CEMA.

The authoritative Soviet party journal Kommunist has just published an article asserting that CEMA is moving from its role as a mere regional economic organization to that of an important force in relations between the Communist states and the rest of the world. It is replete with references to CEMA's ties or prospective ties--mostly the latter--to non-member countries and other economic groups. Kommunist makes no specific mention of CEMA negotiations with the EC, but the article clearly is part of the evolving Soviet campaign to try to dress up CEMA as an organization comparable to the EC.

CHILE: Neither the cabinet shuffle on 28 August nor the army generals' meeting the same day has alleviated the situation. The continued military participation in the cabinet and the generals' indecisiveness strengthen Allende's hand against the poorly coordinated efforts of strikers and coup plotters, but he is enough concerned to have canceled his attendance at the nonaligned conference in Algiers next week.

The only armed service head now in the cabinet is national police chief Sepulveda, who holds a meaningless post. Admiral Daniel Arellano, the new finance minister, held the Public Works Ministry briefly early this year and reportedly is Allende's choice for next navy chief. Army General Rolando Gonzalez faces the same problems in the mining post that frustrated two military predecessors. Air Force General Magliochetti retains the toughest of the military posts, the Transportation and Public Works Ministry that he took over on 17 August.

Respected moderate Socialist Carlos Briones is back as interior minister after a three-week breather as Allende's unofficial--and unsuccessful--seeker of peace with the Christian Democrats. Making way for Briones, Orlando Letelier moved to defense, his third cabinet post in as many months after eleven relatively uneventful years in the US. Christian Leftist Pedro Felipe Ramirez moved from Mining to the patronage-rich Housing Ministry. The only new civilian is Mario Lagos, whose first problem as health minister is a strike by doctors and health workers who are demanding Allende's resignation. Overall, the marxist coalition parties relinquished no power in return for the military backing implicit in the services' acceptance of posts.

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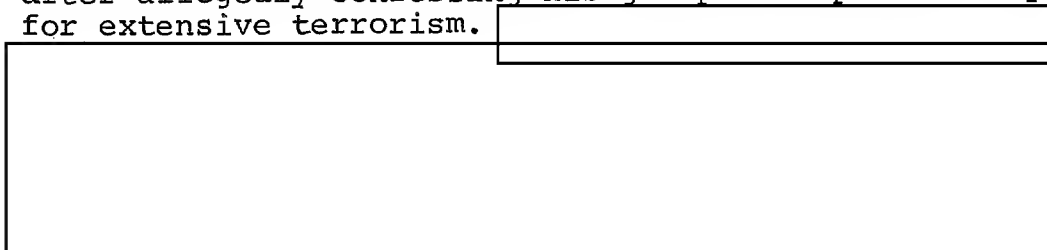
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The new army chief, General Pinochet, is far more energetic than when he operated in Prats' shadow. Pinochet's first priority is overcoming serious disunity in the army and inculcating into his service the concept of interservice unity almost nonexistent to date in the Chilean military.

Recent developments have had a restraining effect on extremists of both left and right who have been working to provoke a confrontation. Rightist Fatherland and Freedom leader Thieme is in prison after allegedly confessing his group's responsibility for extensive terrorism.



ARGENTINA: Recent grants of long-term credits to certain other Latin American nations reflect the Peronists' ambition to enhance Argentina's political influence in the continent.

While Peron has made clear that he intends to add manufactured goods to Argentina's traditional exports of raw materials, he also wants to increase Argentine influence in the hemisphere by strengthening ties with the Andean Group and by promoting his "third position" in foreign policy. This would be consistent with Peronist efforts to challenge US-Brazilian "hegemony" on the continent.

The credits--\$10 million to Peru, \$100 million to Chile, and \$200 million to Cuba--clearly serve political as well as economic goals. The Cuban credits have the advantage--for both countries--of embarrassing OAS members that still favor continuing sanctions against Havana. (The US Embassy also believes that the government's prompt action may be an effort to show strong support for Cuba on the eve of the Nonaligned Nations Conference.) The Cuban agreement, in fact, reportedly is being renegotiated to provide \$200 million per year for an additional five years--bringing the total credit line to \$1.2 billion.

There is little doubt that the aggressive credit policy will stimulate nontraditional Argentine exports. The countries in question would not purchase large volumes of Argentine manufactures without the generous credit terms. However, Argentina probably will be able to maintain these markets, particularly for manufactured goods, only by granting continued large credits. This could eventually present difficulties for Argentina in view of the poor payment record of these countries, particularly Chile. [REDACTED]

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CANADA: The House of Commons is expected to legislate a quick end to the national railroad strike when it meets in special session today. The minority Trudeau government, however, will probably then have to contend with a hot debate on inflation and spiraling food prices. Conservative opposition leader Robert Stanfield has announced that he will seek a vote of confidence, but the administration is likely to survive.

The New Democratic Party (NDP), the government's informal coalition partner, has demanded action on controlling food costs, making mortgage money more available, and protecting those on low and fixed incomes. Government legislation covering at least part of these demands probably will be introduced, and intense bargaining between the NDP and the government is already under way.

New Democratic MPs are divided over whether or not to force an election over rising food prices. Urban MPs are ready for a confrontation, but rural representatives are reluctant because their constituents are benefiting from recent price increases.

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Pakistan: As a result of the extensive flood damage, Islamabad has prohibited the export of raw cotton in order to maintain supplies for its textile industry. Export earnings will be cut sharply because raw cotton accounted for almost 27 percent of Pakistan's export earnings last year. [REDACTED]

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Cuba-Romania: Havana rolled out the red carpet yesterday for Romanian President Nicolae Ceausescu. Cuba is the first stop for Ceausescu on an eight-nation swing through Latin America. He was greeted at the airport by a host of Cuban officials, headed by Fidel and Raul Castro and President Dorticos. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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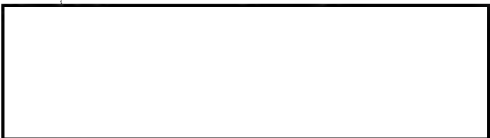
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